

Reflections During Black History Month: What Public Policies Are Hurting African-Americans?

Statement for the Record

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“Challenges Facing Low-Income Individuals and Families in Today’s Economy”

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Chairman Boustany and members of the committee, thank you for the opportunity to submit written comments about the challenges facing low-income individuals and families in today's economy. I am Pamela Villarreal, a senior fellow at the National Center for Policy Analysis. We are a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector.

During a time when people reflect on the struggles and accomplishments of African-Americans over many decades, many agree that “more can be done” to ensure economic opportunity for all Americans. But the demand that the “more” must be done by government through a stronger safety net, wealth redistribution and mandated equality measures overshadows the years of evidence that more often than not, government programs fail. Over the past 30 years, NCPA has published a number of studies describing the effects. Many of these efforts discourage wise choices, limit educational opportunities and create burdensome regulations that hinder entrepreneurship.

Affordable and Quality Housing:

- “Smart growth” urban planning (in an effort to reduce “urban sprawl”) prices lower- and middle-income families out of the housing market. A study by the Urban Institute (as reported in an [NCPA publication](#)) found that smart growth policies reduce both housing affordability and economic opportunity, especially for minorities.
- Efforts to revitalize urban neighborhoods are often hamstrung by [government regulations](#) that raise costs. For instance, the federal Davis-Bacon Act sets construction wages at the prevailing level — which turns out to be the level set by the building trades unions. No federal money can go to a project that doesn't pay at this deliberately inflated scale.
- Furthermore, one-size-fits-all federal environmental rules raise housing costs in neighborhoods where environmental problems have long gone untreated. Both developers and banks are naturally wary of taking on a property that may come with liability for pollution discovered in the future but caused by owners decades before. Banks can't take environmental improvements as collateral. Thus the amount of equity financing required for a given project increases.
- Local policies complicate the clearing of titles on abandoned inner-city properties. Developers seeking to acquire these properties are required to pay back taxes, sometimes dating back a quarter-century or more. The message here: Don't buy and improve vacant land that may be dragging down the property values of the entire neighborhood.
- [The loss of housing affordability](#) disproportionately affects minority households due to their generally lower incomes; thus, the white non-Hispanic home ownership rate is 50 percent higher than the ownership rates for Hispanic and African-American households.

Education:

Charter schools are typically found in urban areas and offer parents educational options where previously they may have had none. Charter schools are smaller than conventional public schools and serve a disproportionate and increasing number of poor and minority students. Despite some attempts by liberal policymakers (such as the New York City mayor) to defund charter schools, parents whose children attend them overwhelmingly support them.

- According to the Center for Education Reform (as reported in [NCPA research](#)) charter schools are smaller than conventional public schools and serve a disproportionate and increasing number of poor and minority students.
- Charter school students are more likely to be proficient in reading and math than students in neighboring conventional schools, achieving the greatest gains among African-American, Hispanic and low-income students.

Employment Opportunities:

Advocates of higher minimum wages say they will help the working poor, yet they often price the lowest-skilled workers out of the market so they are essentially earning nothing. Black teenagers bear most of the burden, as [NCPA notes](#):

- From 1948 to 1955, the unemployment rate of black and white teenage males was essentially the same, 11.3 percent and 11.6 percent, respectively. However, after the minimum wage was raised from 75 cents to \$1 in 1956, unemployment rose significantly for both black and white teenage males, with blacks bearing more of the burden. By 1969, the unemployment rate was 22.7 percent for black teenage males and 14.6 percent for white teenage males.
- Economists Donald Deere, Kevin Murphy and Finis Welch found that minimum wage increases totaling 27 percent in 1990 and 1991 reduced employment for all teenagers by 7.3 percent and for black teenagers by 10 percent.
- Historically, minimum wage and prevailing wage laws were supported by almost exclusively white unions in order to remove the competitive advantage of blacks who were willing to work for less.

Occupational licensing is supposed to protect the public from unsafe and untrained operators but in many professions, it is unnecessary and increasingly keeps individuals from starting their own businesses. One example of overreach is the licensing and training requirements for [African hair braiders](#).

- In 2006 Pennsylvania passed a law requiring African hair braiders to obtain a cosmetology license. Now braiders must complete at least 300 hours of training, or have three years of experience and complete 150 hours of training. As of 2008, 16 other states and the District of Columbia also had hair braiding license requirements, according to the Institute for Justice.
- Licensing decreases the rate of job growth by an average of 20 percent and costs the economy an estimated \$34.8 billion to \$41.7 billion per year, in 2000 dollars, reports the Reason Foundation.

Social Security and Taxes:

Comparing lifetime benefits, the rate of return on Social Security is lower for blacks than for whites due to their shorter life expectancy. According to one NCPA [study](#):

- Among 20-year-old white men, almost 84 percent are expected to reach the normal retirement age.
- By contrast, fewer than 64 percent of 20-year-old black men are expected to live that long.

Thus, although he pays the same payroll tax rate while he is working, the average 20-year-old black male can expect to draw fewer monthly retirement benefit checks, on average. On the other hand, the average lifetime earnings of a young black worker is only 78 percent of those of his white counterpart. And since Social Security's benefit formula favors lower-income workers, it rewards the average black retiree's contributions more than the average white retiree's contributions, other things equal. Despite this, the retirement benefits received by black retirees average less than those of whites.

Moreover, marginal net tax rates for low-income families are high because our system makes a very generous package of welfare benefits available to people who do not work and then begins taking away those benefits at a steep rate as they begin to earn a modest income. [In an NCPA study](#), for example:

- A couple with two children can expect \$489,100 in lifetime benefits if they never work.
- However, if both spouses work full-time and each earns about \$16,000, the loss of Medicaid and other welfare benefits will cost them two-thirds of their income over the whole of their work life.

When all taxes and benefits are considered, the American fiscal system is fairly progressive - at least toward the lower half of the income spectrum. That is, the lower your income, the more generously you are treated. But the price of that generosity is lifetime marginal net tax rates that make working for a living very unattractive.

Stable families:

[Out-of-wedlock births are the second key cause of poverty \(next to lack of employment\)](#). But the structure of welfare benefits encourages single parenthood and family breakups:

- The poverty rate for female-headed households with children is 44.5 percent, compared to 7.8 percent for married couples with children.
- The poverty rate for married black Americans is only 11.4 percent, while the rate for black female-headed households is 53.9 percent.
- African-American children comprise about 25 percent of children who end up in foster care.

Most welfare benefits are restricted to families with children. Thus, having a baby offers a gateway to a generous package of government benefits. But if the mother marries a man who

earns a significant income, the benefits are lost. Indeed, if the mother marries a man who is not working, but the government requires him to take available work before benefits are paid, then the benefits will be lost in any event, whether he refuses to work, or if he works and earns an income that eliminates them. Government is effectively paying women to have children out of wedlock.

Thank you for the opportunity to submit these written comments.